

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8136
BILL NUMBER: SB 524

DATE PREPARED: Apr 11, 2001
BILL AMENDED: Apr 10 2001

SUBJECT: Police and Firefighter Pension Distributions.

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FUNDS AFFECTED:	GENERAL	IMPACT: State & Local
	<u>X</u> DEDICATED	
	FEDERAL	

Summary of Legislation: (Amended) This bill provides that, in calendar years 2002 through 2012, interest on the Public Deposit Insurance Fund (PDIF) (after certain deductions for operating expenses) is to be distributed to units of local government in proportion to payments made by each unit for benefits under the "old" police and firefighter pension plans (The 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund). It prohibits distributions under certain conditions if those distributions would reduce the balance of the PDIF to a level insufficient to ensure the safekeeping and prompt payment of public funds. The bill provides that the Public Employees' Retirement Fund (PERF) Board must adopt rules establishing procedures for making loans to a participant in the Legislator's Retirement System from the participant's employee contribution account and employer contribution account. The bill provides that the rules must comply with certain requirements under the Internal Revenue Code.

Effective Date: (Amended) Upon Passage; July 1, 2001.

Explanation of State Expenditures: (Revised) Interest earned in the PDIF is to be transferred to units of local government to help them with the "old" police and firefighter pension plans (the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund). Payments to units are to be made in the second year following the year in which the pension benefits were paid. For example, payments based on pension benefits in 2000 will not be distributed to the units until 2002. PDIF's average interest earnings over the preceding 11 years has been approximately \$11.8 M. (In FY 2000, the PDIF earned \$15.4 M. This is the total interest received for the period on a cash basis.) These payments will be made for ten years beginning in 2002 and ending in 2011. The bill places certain conditions on the distribution of the interest earned on the PDIF.

Background Material

The PDIF was created in 1937 to insure the deposits of public monies in Indiana's banks, much the same way the FDIC (Federal Deposit Insurance Company) insures depositor's monies. PDIF funds are managed by the

State Treasurer. The State Treasurer is Secretary-Manager for the Board of Public Depositories. The purpose of the Board of Public Depositories is to insure the safekeeping and prompt payment of all public funds deposited in any approved depository through the management of the PDIF.

The PDIF is funded by assessments payable by every depository that has public funds. The Board may waive this assessment if, in its discretion, it determines that the assets of the fund are equal to the reserve for losses. At the present time, the Board has waived the assessment. The Board has the authority to invest, reinvest, and exchange investments of the PDIF in excess of the cash balance in certain securities set out in IC 5-13-12. At the end of FY 2000, the assets of the PDIF totaled \$299,998,396. For FY 2000, expenses of the Fund amounted to \$335,708. consisting of the following items:

<u>Expenses</u>	<u>Amount</u>
Salaries and Benefits	\$105,098
Professional Services	\$86,998
Depreciation	\$34,521
Maintenance Contracts	\$32,751
Other Expenses	<u>\$76,340</u>
Total	\$335,708

The bill also provides that the PERF Board must adopt rules establishing procedures for making loans to a participant in the Legislator's Retirement System from the participant's employee contribution account and employer contribution account. It provides that the rules must comply with certain requirements under the Internal Revenue Code. There may be some administrative costs associated with this part of the proposal, but they are expected to be minimal.

Explanation of State Revenues:

Explanation of Local Expenditures: *Background:* Estimated 2000 pension benefits for the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund are \$159.9 M. These expenses are paid from the local unit's general fund.

Explanation of Local Revenues: Beginning in 2002 and ending in 2012, local units will receive two payments on June 30 and October 1 of each year for deposit in their pension funds.

The estimated \$12 M in interest earnings distributed to local units in 2002 would represent approximately 7.5% of the pension benefits paid in 2000.

NOTE: The Office of Fiscal and Management Analysis has a printout which shows the estimated amount to units if the interest earnings were \$12 M. This is based on the estimated 2000 pension benefits.

State Agencies Affected:

Local Agencies Affected: Those units with members in the "old" police and firefighter pension plans.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for the Police and Fire Funds, 576-1508.